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WEDNESDAY MAY 16, 2018

The Honest Broker
Investment inspiration from everyday life **Page 2**

Insight
Federal budget fails to dazzle women **Page 4**

Money Mentor
US-style loans ruled by credit score arrive **Page 3**

IT solution architect Gopi Muramalla learnt some tough lessons about contracting. Photo: James Brickwood

The contracting cash flow crunch

Contract work has advantages but planning is crucial, writes **Emily Chantiri**.

Contracting roles are great, provided the work is constant, but the down times can be challenging. Gopi Muramalla, 34, an IT solution architect from Sydney, found this to be the case when a planned overseas trip extended beyond his finances.

After moving to Australia from India in 2009, he soon fell into full-time roles. However, when the projects ended, so did his job.

"Once the project finished, often, I'd be sitting on the bench with little or no work to do," Muramalla says. "In my last permanent role in 2014, I was asked to move on because there was no work."

Undaunted, he found plenty of contracting roles coming his way. Muramalla set himself up as a sole operator and engaged the services of a tax consultant.

"Contracting is different to being full-time employed; you're given a task and work independently," he says. "I bill my clients and submit my income and expenses each quarter to an accountant who calculates how much tax and super I need to set aside."

The toughest moment hit in 2017, when a two-month vacation to visit family in India, extended to six months and then it took a couple of months to land a role. "This was so tough; I only had two months' of savings."

During this period, he scrutinised all his expenses. "I calculated every dollar, from my internet plans to mortgage repayments on an investment and my rent. I borrowed money from a friend and shared my apartment to help with rent in order to survive," he says. "I said to myself, I will never make this mistake again. Now, I've got six months' saved."

While job insecurity and increased casualisation is a problem for many workers, contracting roles can be appealing for well-paid professionals with skills in demand.

Recruiter Anthony Hannaford, HCM Australia, has witnessed a significant jump towards contracting over the past decade.

"People want contractors faster, on smaller time frames and they need them yesterday," Hannaford says. "Contractors are like hired guns who do a specific job, they're usually high-calibre with a niche skill level. They're paid a premium, sometimes 30 to 40 per cent more."

For his part, Muramalla has no desire to return to a permanent gig. "Aside from having enough savings, what I've learnt is to maintain contacts and work at your best," he says. "We're paid more, so the expectations are high. Companies can get cheaper people or even outsource; it's competitive."

Wealth mentor Jackson Millan says there is a golden rule to have three to six months' salary saved. "Unfortunately, life gets in the way or situations like Gopi's arise," Millan says.

Maintaining a personal profit and loss flow will help contractors know how much they need every single month. "If your living expenses are $5000 a month and you're out for three months, you'll need to have $15,000 as a buffer.

"If you just pick a figure out of the sky, you won't stick to your savings. This tends to be the biggest impediment with most as their saving goal is not specific to them."

A 90-day plan can help

"Look 90 days into the future, work out how much you'll have earned and where the opportunities lie," Millan says. "If you're nearing the end of a contract, begin networking and look out for prospects to

Continued Page 2

Something will have to give in financial advice market

Super & funds
John Collett

Revelations from the banking royal commission concerning financial advice will result in changes in the way that advice is delivered.

The vertical integration business models of the banks, the "wealth" managers like AMP and some of the independently owned financial planning businesses, will likely be the focus of the royal commission's recommendations concerning financial advice.

This is where the financial institution makes the financial products and also employs the advisers, or is aligned to the advisers who distribute the products.

Everyone who has looked at the issue, from the Australian Securities and Investments Commission to the Productivity Commission, has said vertical integration is inherently conflicted.

That, and advisers not being individually licensed, are the roots of the problems with financial advice. Before the banning of commissions, some of the biggest blow-ups occurred at the so-called "independent" end of the advice marketplace.

This was where the planning firm was recommending products of a third party that was paying high commissions. With the banning of most commissions (though not those for life insurance) that conflict of interest has mostly ended.

But a supervisor at a vertically integrated business who calls an employee-planner into a meeting room to talk of the need to hit sales targets of "house" products presents a powerful conflict of interest. That leaves integrated business models as a focus of the royal commission when it makes its final report and recommendations early next year.

While the big banks are selling or preparing to sell their wealth and advice arms, those financial advice firms that manufacture their own products and recommend them to clients are going to come under particular pressure.

In the vertically integrated business models, the money is made from the fees on products – the advice can be seen as almost incidental to the distribution of products.

The dominance of vertically integrated models means the pricing of financial advice is distorted.

If the royal commission does recommend limiting the extent to which financial service organisations can use their financial planning arms to sell their products, there's likely to be a realigning of the costs of advice.

After the revelations before the royal commission, consumers will be more sceptical and selective when shopping for advice.

Once the costs of the advice is separated from products, it will be up to consumers to decide if they will pay the expected premium for quality advice. Not everyone needs a comprehensive financial plan and the market will sort itself out to make advice affordable.

That will happen by giving cheaper "scaled" advice, where personal advice is given on only one aspect of someone's financial affairs rather than providing a comprehensive financial plan. Those consumers who are self directed may even choose to side-step an adviser altogether.